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Executive Registry
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(with ~~SECRET~~ Attachment)

TO:	OVP	-	Mr. Donald P. Gregg
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	CEA	-	Mr. William Niskanen
	CIA	-	Mr. Thomas B. Cormack
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	Defense	-	COL John Stanford
	OMB	-	Mr. Alton Keel
	OPD	-	Mr. Edwin Harper
	Treasury	-	Mr. David Pickford
	USTR	-	Mr. Dennis Whitfield

Subject: Status Report on East-West Economic Relations

As background for the meeting of the SIG-IEP on Monday, February 28, Under Secretary Allen Wallis has requested circulation of the attached report on the status of the East-West economic relations exercise.

Charles Hill

L. Paul Bremer, III
Executive Secretary

Attachment:

Status Report

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EAST-WEST ECONOMIC RELATIONSIntroduction and U.S. Policy

On November 13, President Reagan announced Allied consensus on a comprehensive approach to East-West economic relations, which may also be taken as a summary of U.S. policy on this question. The Allies parties to the framework agreement (The Summary of Conclusions) -- Canada, Germany, France, Italy, Japan, the U.K. and the U.S. -- "...recognize the necessity of conducting their relations with the U.S.S.R. and Eastern Europe on the basis of a global and comprehensive policy designed to serve their common fundamental interests. They are particularly conscious that action in the economic area be consistent with that global and comprehensive policy and thus be based on a common approach." They agreed that the following criteria should govern economic dealings of their countries with the U.S.S.R. and Eastern Europe:

- That they will not undertake trade agreements or take steps which contribute to the military or strategic advantage and capabilities of the U.S.S.R.;
- That it is not in their interests to subsidize the Soviet economy, and that trade should be conducted "in a prudent manner without preferential treatment."
- That they will not engage in economic warfare against the Soviet Union, and that to be consistent with broad Allied security interests, trade with the U.S.S.R. must proceed, inter alia, on the basis of a strict balance of advantages.

Pursuant to this agreement, the President issued NSDD 66 which set forth U.S. objectives to be sought in the work programs/studies to which the Allies had agreed in the "Summary of Conclusions." By the end of December, the Allies had agreed to the fora in which the work would proceed.

In mid-January, the SIG-IEP reviewed the papers prepared by the working groups established by the NSDD as the bases for U.S. negotiating strategies and recommended their approval. The following briefly summarizes the U.S. strategy for each area. Our objective is to have the energy and NATO studies finished, and work on credits and high technology sufficiently advanced, to permit policy decisions to be taken at the Spring Ministerial meetings of NATO and OECD, and the Williamsburg Summit.

1. NATO STUDY. The NATO Economic Committee has initiated a study of the security aspects of East-West economic relations. Our objective will be to develop a comprehensive security-oriented framework within which we would seek to advance the NSDD 66 objectives in specific areas. Our strategy would focus the study on the present and projected Soviet economic situation; the impact of East-West economic relations on Soviet economic/strategic/military capabilities; Western economic and strategic vulnerability and dependence

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